

PROPOSED RESOLUTION

Resolution W-5160
WD

Agenda ID #16308 (Rev. 1)
Item #12

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Water Division
Water and Sewer Advisory Branch

RESOLUTION W-5160
March 22, 2018

RESOLUTION

(RES. W-5160), SAN JOSE WATER COMPANY (SJWC) (U 168 W)
ORDER AFFIRMING WATER DIVISION'S DISPOSITION OF SJWC'S
REQUEST TO IMPLEMENT STEP RATE INCREASE FOR 2018
ESCALATION YEAR.

By Advice Letter No. 513-W filed on November 15, 2017 and
Supplemented by Advice Letter No. 513-W-A filed on December 20, 2017.

SUMMARY

The Resolution responds to a request by a SJWC customer for Commission review of Water Division's approval of SJWC's Advice Letter No. 513-W as supplemented by 513-W-A seeking to implement step rate increase for 2018 escalation year. The Resolution affirms Water Division's disposition of SJWC's request and finds that Advice Letter 513-A is compliant with: 1) the Commission Rate Case Plan attached to Decision (D.) 07-05-062 in Appendix A at Section VII and 2) the Commission's last general rate case decision for SJWC, D. 16-06-004 at Ordering Paragraph No. 8.

BACKGROUND

In Advice Letter (AL) 513-W, SJWC requested authorization to increase revenue requirement by \$16,425,000 or 4.43 percent via a step increase for the second escalation year of 2018. This request was made pursuant to Ordering Paragraph No. 8 of D.16-06-004. Decision 16-06-004 authorizes SJWC to file advice letters for step rate increases for the two escalation years 2017 and 2018 in compliance with the Commission's Rate Case Plan subject to the pro-forma earnings test. The pro-forma Summary of Earnings Test as of September 30, 2017 showed SJWC was earning below the authorized rate of return on rate base of 8.09% as set forth in D.12-07-009 and subsequently revised in approval of AL 444 effective January 1, 2013.

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SJWC computed the Escalation year increases using the authorized Rate of Return of 8.09%, the escalation methodology set forth in D.04-06-018, and the latest available escalation factors published by Division of Ratepayer Advocates Energy Cost of Service Branch dated October 31, 2017 and the latest CPI factors from the U.S. Bureau of Labor.

Water Division, upon examination of SJWC's computation of Escalation year increases, found errors and required SJWC to file a supplement with appropriate corrections.

SJWC filed supplemental AL 513-W-A, requesting authorization to increase revised revenue requirement by \$15,670,000 or 4.22%. AL 513-A recalculated certain expenses related to pension and income taxes resulting in a slight decrease to the revenue requirement for 2018.

Water Division approved the supplemental Advice Letter 513-A authorizing SJWC to revise its tariffs effective January 1, 2018 to implement the revised increase in revenue requirement of \$15,670,000 or 4.22% for 2018 step rate increase

Notice and Service

In accordance with General Rules 4.3 and 7.2, and Water Industry Rule 4.1, of General Order 96-B, SJWC served copies of Advice Letter 513-W to competing and adjacent utilities and other parties requesting such notification, on November 15, 2017. SJWC served copies of the supplement, Advice Letter 513-W-A, to the same list on December 20, 2017.

Protests and Request for Review of Water Divisions Disposition of AL 513-W-A

Approximately 335 protests to AL 513-W were filed by customers indicating the request is unjust, unreasonable, or discriminatory and the customers were not notified appropriately of the impending increase. Some customers indicated that the relief requested in the advice letter requires consideration in a formal hearing with evidence and testimony from Water Division to itemize the other rate increases approved in 2017 amounting to greater than 20% and far exceeding the CPI and allowing rate of return on rate base greater than the Commission authorized 8.09%. On December 28, 2017 Water Division issued a disposition letter for AL 513-W and 513-W-A denying all protests and approving AL 513-A. On January 2, 2018, Dr. Patrick Kearns, a customer of SJWC, who had protested AL 513-W timely requested Commission review of Water Division's disposition of this matter pursuant to General Order 96-B, Rule 7.7.1. Dr. Kearns raises

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two issues in his request for Commission review. First, protestants were not notified by Water Division of its request to SJWC to file a supplement correcting errors in AL 513-W. Second, SJWC's December 6, 2017 reply (entitled "Response to Comments") to the 335 customer protests was inadequate in addressing the specific issues raised in the protests by Dr. Kearns and others as required by General Order 96-B, Rule 7.4.3.

With regard to this second issue, at the request of the Water Division, on January 11, 2018 SJWC responded in particular to Dr. Kearns' protest letter of December 2, 2017.

DISCUSSION

SJWC filed AL 513-W as a Tier 2 advice letter in conformance with the Commission's General Order (GO) 96-B and Ordering Paragraph No. 8 of D. 16-06-004 which sets rates for Test Year 2016 and mandated Tier 2 advice letter filings for Escalation Years 2017 and 2018. The calculations of escalation year rates are formulaic in nature and are reviewed for conformance with terms and procedures specified in the Commission's Rate Case Plan for Class A Water Utilities in D.04-06-018 and D. 07-05-062 (Appendix A at Section VII). Water Division's review is generally ministerial in nature, implementing the Commission's prior policy determination and not exercising discretion with respect to policy issues. Hence a formal hearing with evidence and testimony is not required. Normally, the utility does not have to serve a notice to customers of a Compliance Advice Letter pursuant to General Order 96-B, Water Industry Rule 3.2. Specifically, with regard to escalation filings, these matters are requested and authorized as part of a utility's triennial general rate case application. In the case of SJWC this last occurred in A.15-01-002 where escalation increases for 2017 and 2018 were requested. Notification of a utility's general rate case application is provided to all customers as required by Rule 3.2(d) of the Commission's Rules of Practice and Procedure. However the utility is required to serve notice of its advice letter filings on adjacent water utilities, Municipalities, and persons, including customers, who have requested inclusion on SJWC's advice letter service list. We find that SJWC complied with the notice requirements for AL 513-W.

Water Division reviewed AL 513-W, suspended it on December 15, 2017, and requested SJWC to file a supplement to address the concerns and errors in AL 513-W. Water Division is not required to notify protestants if it requests the utility to file a supplement to an advice letter. SJWC filed supplemental Advice letter 513-W-A on December 20,

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2017 recalculating certain expenses related to pension and income taxes resulting in a decrease to the revenue requirement for 2018 compared to amounts requested in AL 513-W. Additionally, the quantity rate and meter charge calculations were also amended to reflect the impact of the authorized customer growth factor on sales and number of customers. The filing of a supplement or additional information at the request of Water Division does not automatically continue or reopen the protest period. (General Order 96-B, Water Industry Rule 7.5.1.)

We conclude that SJWC's AL 513-W as supplemented by 513-W-A and Water Division's review and processing of this matter are compliant with: 1) the Commission Rate Case Plan attached to D. 07-05-062 in Appendix A at Section VII; 2) the Commission's last general rate case decision for SJWC, D. 16-06-004 at Ordering Paragraph No. 8; and 3) General Order 96-B. As such, we affirm Water Division's disposition in approving SJWC's AL 513-W-A.

We take note of the content of SJWC's December 6, 2017 reply to protests of AL 513-W. If SJWC replies to protests in a single response, we expect that response to be comprehensive in replying to all the issues raised by protests from customers and others. We expect SJWC's reply to protests to be timely and comprehensive in its content.

SAFETY

This matter has no safety implications.

COMMENTS

Public Utilities Code Section 311 (g)(2) provides that the proposed resolution be available for 30-day public review. Accordingly, this draft Resolution is made available for public comment. Comments were received from five customers of SJWC urging the Commission deny the step rate increase for the 2018 escalation year. As discussed in this Resolution, the Commission authorized the 2018 escalation year request when it issued its most recent general rate case decision for SJWC in D.16-06-004 at Ordering Paragraph No. 8. Comments do not cite any factual, legal or technical errors in the draft Resolution. No changes have been made to this Resolution in response to these comments.

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FINDINGS AND CONCLUSIONS

1. On November 15, 2017 SJWC filed Advice Letter 513-W requesting to implement step rate increase for 2018 Escalation Year as established by the Commission in D. 16-06-004.
2. SJWC with this advice letter requested authorization to increase revenue requirement by \$16,425,000 or 4.43 percent effective January 1, 2018.
3. Upon review of the original work papers, the Water Division requested that SJWC file a supplement to AL 513-W recalculating certain expenses related to pension and income taxes resulting in a slight decrease to the revenue requirement for 2018 as originally requested in AL 513. Additionally, the quantity rate and meter charge calculations were also to be amended to reflect the impact of authorized customer growth factor on sales and number of customers.
4. SJWC filed Advice Letter 513-W-A on December 20, 2017.
5. Advice Letter 513-W and 513-W-A were properly noticed.
6. Water Division reviewed SJWC's updated documentation supporting the revised revenue requirement of \$15,670, 000 or 4.22%, and found the step increase for 2018 to be reasonable.
7. Water Division approved AL 513-A on December 28, 2017 for rates to be effective January 1, 2018 and denied all protests on this matter.
8. Pursuant to General Order 96-B, Rule 7.7.1, on January 2, 2018 Dr. Patrick Kearns, a customer of SJWC, submitted a timely request for Commission review of Water Divisions disposition of SJWC's AL 513-A.
9. Water Division's review and processing of AL 513-W and 513-W-A are compliant with: 1) the Commission Rate Case Plan attached to D. 07-05-062 in Appendix A at Section VII; 2) the Commission's last general rate case decision for SJWC, D. 16-06-004 at Ordering Paragraph No. 8; and 3) General Order 96-B.
10. Water Division's disposition in approving SJWC's AL 513-A should be affirmed.

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11. SJWC's December 6, 2017 reply to protests did not adequately address all the issues raised in customer protests.
12. SJWC should respond to all issues raised in protests to its advice letter filings either in individual responses or as part of comprehensive response to all protests.
13. There are no safety implications associated with this matter.

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THEREFORE, IT IS ORDERED THAT:

1. Water Division's disposition approving San Jose Water Company's Advice Letter 513-W-A effective January 1, 2018 for a step increase for escalation year 2018 pursuant to Decision 16-06-004 at Ordering Paragraph No. 8 is affirmed.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on March 22, 2018; the following Commissioners voting favorably thereon:

ALICE STEBBINS
Executive Director

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SAN JOSE WATER COMPANY ADVICE LETTER NO. 513-W SERVICE LIST

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Protestants to Advice Letter 513